

REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON THE FINANCIAL STATEMENTS OF THE LUKHANJI MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2005

1. AUDIT ASSIGNMENT

The annual financial statements as set out on pages 21 to 44 for the year ended 30 June 2005, have been audited in terms of section 188(1)(b) of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 126(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003). These annual financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these annual financial statements, based on the audit.

2. NATURE AND SCOPE

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the annual financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the annual financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations, which came to my attention and are applicable to financial matters.

The audit was completed in accordance with Auditor-General Directive No. 1 of 2005.

I believe that the audit provides a reasonable basis for my opinion.

3. QUALIFICATION

3.1 Debtors

Included in debtors is an amount of R1 691 725 (R1 608 000 in 2003/2004) relating to employees pension contributions for which no contract between the parties involved could be obtained to confirm the existence of the debt and/or the authenticity of the contributions.

Also included is a Salary suspense account balance of R202 203 for which no documentation could be produced to establish the origin and or existence of the debt.

The additional costs incurred relating to the recovery of debt by attorneys amounting to R810 992 has been set off against debtor account balances. However, the adjustments to the respective debtor accounts for the additional costs incurred have not been effected resulting in debtors being understated by the same amount.

Duplicate accounts to the value of R298 834 have been identified by the municipality, however, no adjustment in this regard has been effected to account balances resulting in debtors being overstated by the same amount.

Considering that R107 431 395 or 83% (89% in 2003/2004) of outstanding debts relates to a period exceeding 120 days and that only 36% of consumers make regular payments, supports the assumption that long overdue amounts may not be recovered. In view of the aforementioned, the increased provision of R72 642 453 is inadequate to cover the possible level of irrecoverable debts.

3.2 Statutory Funds

The correctness and completeness of the amount of R724 931, included as land sales in Other income in the Consolidated Capital Development and Loans Fund at 30 June 2005 could not be substantiated as a register to support the sale of land was not maintained during the financial year under review.

3.3 Inventories

Although a stock count was performed at year end no variance report or reconciliation between the actual stock on hand and the balance according to the computer generated stock catalogue was performed. The amount disclosed in the financial statements of R1 201 524 could again not be confirmed, as was case in the 2003/2004 financial year.

3.4 Cash and Bank

Included in the bank reconciliation at 30 June 2005 is an amount of R5 283 963 referred to as outstanding cheques. However, a list of outstanding cheques to substantiate the amount could not be produced for audit purposes, resulting in a limitation on the audit work that could be performed.

3.5 Long-term Debtors

Included in Long Term Debtors are amounts totalling R804 100, of which the existence could not be confirmed and have shown no movement for the financial year under review as was the case in the previous financial year. The recoverability of these amounts is doubtful as repayments of land sales should occur within a twelve month period. However, as no provision for any irrecoverable amount has been made it would appear that the amount of R822 881 disclosed as short term portion of long term debtors is overstated by the said amount.

4. QUALIFIED AUDIT OPINION

In my opinion, except for the effect on the financial statements of the matters referred to in paragraph 3, the financial statements fairly present, in all material respects, the financial position of the municipality at 30 June 2005 and the results of its operations and cash flows for the year then ended, in accordance with the Institute of Municipal Finance Officers standards and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

5. EMPHASIS OF MATTER

Without further qualifying the audit opinion expressed above, attention is drawn to the following matters:

5.1 Unauthorised Expenditure

The approved budgets for the following individual votes were exceeded for the period under review for which no council approval was obtained. In terms of the definitions in Chapter 1 of the Municipal Finance Management Act (Act 56 of 2003) the excess expenditure constitutes unauthorised expenditure and should be reported as such.

Vote	Vote description	Budget	Actual	Variance
1165	Health : New Rest Clinic	556,660	567,327	10,667
1170	Health: Nursing: Administration	555,840	564,602	8,762
1320	Recreation Ground : Sportfield	772,000	799,174	27,174
1281	Civic Centre : Mlungisi	78,400	89,785	11,385
1455	Financial Services : Computer	-121,060	213,284	334,344
1355	Workshop (Mechanics)	894,820	905,314	10,494
1605	Electricity : Distribution	35,250,920	35,696,506	445,586
1615	Electricity : Distribution ACC	615,670	634,858	19,188

5.2 Internal Controls

a) Employee cost

A reconciliation between the payroll and the general ledger is not being performed to ensure completeness of salaries, wages and allowances as accounted for in the general ledger.

Monthly payrolls are not certified as being correct by management or circulated to department heads to confirm existence of employees.

Journals passed relating to salaries are not approved and/ or reviewed by a senior official.

In terms of the Basic Conditions of Employment Act of 1997 section 10(1), an employer may not require or permit an employee to work overtime except in accordance with an agreement. Overtime worked may not exceed three hours a day or ten hours a week.

The directors packages totalling R2 943 504 were approved by council on 23 January 2003 with effect from date of appointment as section 57 of the Systems Act, Act 32 of 2000 appointees. However, a comparison between the approved structures and the remuneration actually paid could not be performed as details regarding the deferred compensation benefits paid by the municipality on behalf of the section 57 employees could not be produced.

b) Contract register

The municipality did not maintain a contract register, as mentioned in paragraph 5.6 of the previous report, in respect of projects financed from Trust Funds, to substantiate that payments were within the contracted amount and in accordance with the conditions of allocations received.

c) Fixed assets

The control over movable fixed assets is inadequate as a unique identification number for assets is not included in the asset register and assets are not numbered to facilitate easy identification. Accordingly assets verification could not be performed to establish the completeness of the asset register and or the existence of moveable assets.

d) Inventory

A report required in terms of Ordinance 17 of 1938 on the findings of the stock count has not been submitted to Council.

e) Segregation of Duties

The Municipal IT manager and IT operators are not restricted from transactional functions in the application system and these transactions are also not monitored, thus, the potential for concealment of fraud is not minimized.

5.3 Rates and Taxes

In terms of sections 8(1) and (2) of the Property Valuation Ordinance, 1993 (Ordinance No. 148 of 1993) a local authority should from time to time cause a general valuation to be performed on all property. The general valuation must be performed at least every four years and an interim valuation performed annually. The MEC may extend the period on request for one year. The municipality did not comply with the provisions of the Property Valuation Ordinance, 1993 (Ordinance No. 148 of 1993) as the last general valuation was performed in 1993, approved in 1997 and implemented in 1998.

Cognizance is taken of the fact that a general valuation was performed by an external service provider. However, a report, on an investigation of the valuation, issued by the Department of Housing, Local Government and Traditional Affairs, indicates that no reliance can be placed on the accuracy of the valuation and as such was rendered not applicable for rates purposes.

5.4 Funds and Reserves

The housing development fund of R2 155 231 is not represented by concomitant investments to support the existence of the fund. The interest of R317 244 payable by the Rates and General account has also not been accrued for in the fund.

5.5 Consolidated Loans Fund

Temporary advances of R6 553 315 (R3 888 641 at 30 June 2004) as disclosed in Consolidated Loans Fund in Note 25 of the Notes to the financial statements for the year ended 30 June 2005 could not be reconciled with the various funds and accounts in favour of which the advances were raised.

5.6 Annual financial statements

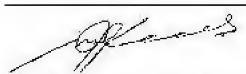
In terms of section 126(1)(a) of the Municipal Finance Management Act (no. 56 of 2003) the accounting officer of the municipality must within two months after the end of the financial year submit the annual financial statements to the Auditor General for auditing. Material changes had to be made to the financial statements submitted on 31 August 2005 and the financial statements were subsequently re-signed and dated on 9 December 2005.

5.7 Internal audit

The internal audit function has not been afforded sufficient independence and authority to enable it to meet its required obligations in terms of the internal audit charter and the approved internal audit plan. This is evidenced by the fact that internal audit personnel are performing certain supervisory functions which should be addressed by management.

6. APPRECIATION

The assistance rendered by the staff of the municipality during the audit is sincerely appreciated.



S M Ngqwala for Auditor-General

EAST LONDON
8 March 2006



REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON PERFORMANCE MEASUREMENT AT LUKHANJI MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2005

1. ASSIGNMENT

The compilation, presentation and publishing of performance measurements and the implementation, management and internal control of supporting systems, are the responsibility of the accounting officer.

My responsibility is to provide an assessment of the controls implemented by the accounting officer to develop and manage the municipality's performance management system as required by section 45(b) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000).

My role is not to assess or comment on the municipality's actual performance, but rather to assess the processes followed during the implementation of the performance management system.

2. NATURE AND SCOPE

A high-level overview was performed which indicated that performance measurement and supporting systems have not progressed to the point where they can be audited. Therefore no audit was performed and the procedures performed were limited to high-level overview interviews.

3. FINDINGS

I report my findings and matters which came to my attention during the high-level interviews below:

Although management has reviewed their Integrated Development Plan during the financial year under review management have implemented no controls to implement and manage the municipality's performance management system. Consequently, we were unable to evaluate the municipality's performance management system as none of the following key activities to promote the implementation of a performance management system, have taken place:

- The implementation of a performance management system.
- Development and implementation of key performance indicators.
- Setting targets for the developed key performance indicators.
- Internal monitoring and control.
- Performance measurement and reporting.

4. CONCLUSION

Because the above procedures do not constitute either an audit or a review made in accordance with Statements of South African Auditing Standards, I do not express any assurance on any performance measurement as at 30 June 2005.

An audit of the financial statements in accordance with statements of South African Auditing Standards was concluded and a report to this effect was included in the annual report.

5. APPRECIATION

The assistance rendered by the staff of Lukhanji Municipality during the assignment is sincerely appreciated.



S M Ngqwala for Auditor-General

EAST LONDON
8 March 2006

